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T.R.A. DOCKET ROOM

September 2, 2003

VIA FEDERAL EXPRESS


Honorable Deborah Taylor Tate
Chairman
Tennessee Regulatory Authority
460 James Roberson Parkway
Nashville, Tennessee 37243-0505

Re: Docket No. 03-00313

Dear Chairman Tate:

I have enclosed an original and fourteen copies of the Rebuttal Testimony of Chuck W. Fleenor on behalf of Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. Please accept the attached for filing and return one "file-stamped" copy to me.

Very truly yours,


James H. Jeffries IV

JHJ:bo

Enclosures

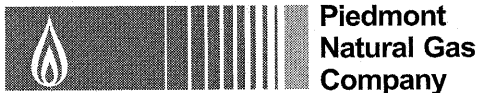
cc: All Parties of Record
Dale Grimes

**Before The
Tennessee Regulatory Authority
Docket No. 03-00313**

In the Matter of

Application of Nashville Gas Company,)
A Division of Piedmont Natural Gas)
Company, Inc., for an Adjustment of its)
Rates and Charges, the Approval of)
Revised Tariffs and the Approval of)
Revised Service Regulations)

**Rebuttal Testimony of Chuck W. Fleenor
On Behalf Of
Nashville Gas Company,
A Division of
Piedmont Natural Gas Company, Inc.**



1 **I. Identification of Witness.**

2 **Q. Please state your name and your position with Piedmont Natural Gas**
3 **Company.**

4 **A.** My name is Chuck Fleenor. I am employed by Piedmont Natural Gas Company,
5 Inc., (Piedmont) as Vice President-Corporate Planning and Rates.

6 **Q. Have you previously filed testimony in this case?**

7 **A.** Yes. I have submitted direct testimony in this case

8 **II. Purpose of Testimony.**

9 **Q. What is the purpose of your rebuttal testimony?**

10 **A.** The purpose of my rebuttal testimony is to respond to the testimony of Consumer
11 Advocate witness Daniel McCormac. My comments will respond to his criticism
12 of the Company's use of a cost of service study and his testimony concerning
13 residential "value of service."

14 **III Rebuttal of Consumer Advocate Testimony – Cost of Service Study**

15 **Q. Does Mr. McCormac comment on the customer class cost of service study**
16 **provided by the Company?**

17 **A.** Yes. Although Mr. McCormac reiterates my comments that a cost of service study
18 is relative and not definitive, he fails to provide any evidence or allegation that the
19 study is wrong.

20 **Q. Does Mr. McCormac allege that the study should not be used?**

21 **A.** No. In fact, he agrees with my testimony that the "study presents only part of the
22 evidence."

23 **Q. Does Mr. McCormac offer an alternative cost of service study that would**
24 **differ from the study offered by the Company?**

25

1 A. No. He does not.

2 **Q. Do you have any additional comments concerning the Company's cost of**
3 **service as it applies to rate design?**

4 A. Mr. McCormac states that because the Company concedes that cost of service
5 studies are based upon assumptions and subjective evaluations, they only present
6 part of the evidence in the TRA's quest to find specific just and reasonable rates.
7 In my opinion, there are no absolute rates which would qualify as specific just and
8 reasonable rates. As stated in the "**Gas Distribution Rate Design Manual**"
9 **prepared by the NARUC Staff Subcommittee on Gas, June 1989**, Utility rate
10 design is more art than science. The manual continues to state, "There are a
11 number of reasonable methods which means that the appropriate cost of service
12 allocation is often a hotly contested issue. This is not to suggest that cost of
13 service studies are arbitrary; some allocations are clearly more reasonable than
14 others. However, there is no one correct cost of service, but rather a range of
15 *reasonable* alternatives." (Emphasis added).

16 **Q. Do you consider Mr. McCormac's "value of service" designed rates to**
17 **represent such a reasonable alternative?**

18 A. No, I do not. Mr. McCormac's method fails to take into account at all the
19 underlying cost associated with providing service to Nashville's various customer
20 classes. While it may be possible to arrive at differing conclusions regarding
21 what are the costs of providing service to a particular customer class, I do not
22 believe that properly designed rates should ignore this factor completely. Further,
23 and as is discussed below, several of the premises underlying Mr. McCormac's
24 "value of service" approach are contradicted by observable facts.

25 **Q. Mr. Fleenor, do you agree with any statement made by Mr. McCormac**

1 **about rate design?**

2 A. Yes. Mr. McCormac seems to agree that there are numerous other factors that
3 should be included in rate design. This is in agreement with the description of the
4 rate design process provided in my direct testimony where I listed various
5 elements that the Company considered in rate design. Some of these elements are
6 (1) value of service, (2) the need to avoid discrimination among classes of service, (3)
7 system load equalization and (4) revenue stability. I also considered several non-
8 economic factors such as the changes in the industry and the economic sensitivity of
9 our markets.

10 **Q. Are there any other comments about Mr. McCormac's testimony?**

11 A. Yes. Mr. McCormac discusses the importance of "value of service" and
12 expresses a concern that Nashville's current residential "heat only" rates are
13 higher than the cost of operating a heat pump. He states, "some current
14 residential rates are 53% too high when measured by the 'value of service'
15 approach. I believe that his conclusions are flawed because the basis for his
16 conclusion is too narrow.

17 First, his figure of 53% will certainly change as the NEC implements the
18 announced rate increase of some 7% in October and the decrease in natural gas
19 prices. Although the industry has seen high natural gas prices during this past
20 summer, many experts agree that the outlook for gas prices is downward as
21 presented in the Natural Gas Symposium presented by the TRA held in Nashville
22 on August 19, 2003. It would be improper to make policy decisions without
23 considering the information available at such a conference.

24 Secondly, Mr. McCormac and the TRA must realize that value of service
25 considers more than the cost of the alternative fuel. Residential customers prefer

1 the comfort and reliability provided by gas space heating and water heating over a
2 heat pump and have demonstrated their willingness to pay a premium for comfort
3 and reliability.

4 **Q. What information do you rely on to make such a statement?**

5 A. Although Mr. McCormac states that "heat only" gas rates are higher than the heat
6 pump, Nashville Gas has converted over 600 customers from electricity to gas in
7 the last twelve months. We are not aware of any case in which a Nashville Gas
8 customer has removed gas equipment in favor of an electric heat pump. Mr.
9 McCormac quotes my testimony in which I state, "Value of service considerations
10 rest on the premise that the value of a utility service to a consumer cannot be
11 greater than the cost to that consumer of an equally satisfactory alternate service."
12 The consumer is the best determinate of what is a "satisfactory alternate service".
13 The facts demonstrate that the electric heat pump is not an equally satisfactory
14 alternate service even at current rates.

15 **Q. Please explain further your references to comfort and reliability.**

16 A. Although most of us are aware of the preferred differences between gas services
17 and electric, I would like to review some of them. Heat pump customers often
18 complain of the "drafty" nature of heating with a heat pump. The air temperature
19 as it leaves the register is often around 90 degrees. This movement of air that is
20 less than body temperature will tend to feel "drafty." Since heat pump air is
21 cooler than air from a gas furnace, it takes more 90-degree air to raise any room
22 by one degree than it would if the air were 110 degrees. Therefore the heat pump
23 must work longer and the fans blow longer unless they are larger. Toasty air from
24 a gas furnace is approximately 110 degrees or higher and will always feel more
25 comfortable. Gas water heating also provides greater comfort because even

1 through the water temperature can be set to the equal; the gas water heater will
2 provide more heated water and recover quicker than an electric water heater of the
3 same size. Therefore gas water heating will provide comfortable heated water
4 longer. How comfortable is it when the hot water runs out?

5 **Q. Will you also explain your views on reliability?**

6 A. Everyone can remember when they experienced the last power outage, but who
7 can recall when the gas service was interrupted, if ever. Conditions such as ice
8 storms, lightning, and wind have all interrupted electric service to customers in
9 Nashville while gas service remained intact and useful to customers for water
10 heating, cooking and gas logs. Natural gas service is more reliable and provides
11 premium value that customers are willing to pay to receive.

12 **Q. Has Nashville Gas been successful in adding new customers?**

13 A. Our year to date data indicates that over 76% of new single family houses in the
14 Nashville Gas service territory utilize natural gas for heating and/or water heating.
15 Again, natural gas is the preferred alternative.

16 **Q. Is the legitimacy of Mr. McCormac's "value of service" approach influenced**
17 **by prevailing natural gas prices?**

18 A. Yes. A very large percentage of the costs of receiving natural gas service are for
19 the commodity itself. As such, during any given quarter, the cost of receiving
20 natural gas service can go up or down as the market price for natural gas goes up
21 or down. The volatility of the commodity price of natural gas is much more likely
22 to result in cost swings above or below the cost of electricity than is the relatively
23 small increase in base rates sought in this proceeding.

24 **Q. Does that conclude your testimony?**

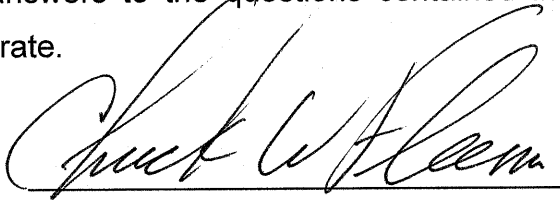
25 A. Yes.

Affidavit

State of North Carolina)
)
County of Mecklenburg)

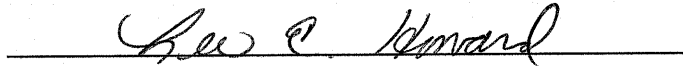
Chuck W. Fleenor, being first duly sworn, deposes and says that he is the same Chuck W. Fleenor whose prepared testimony and exhibits accompany this affidavit.

Chuck W. Fleenor further states that, to the best of his knowledge and belief, his answers to the questions contained in such prepared testimony are true and accurate.



Chuck W. Fleenor

Sworn to and subscribed before me, a Notary Public, on this the 27 th day of August, 2003.



My Commission Expires:

MY COMMISSION EXPIRES 10-29-05